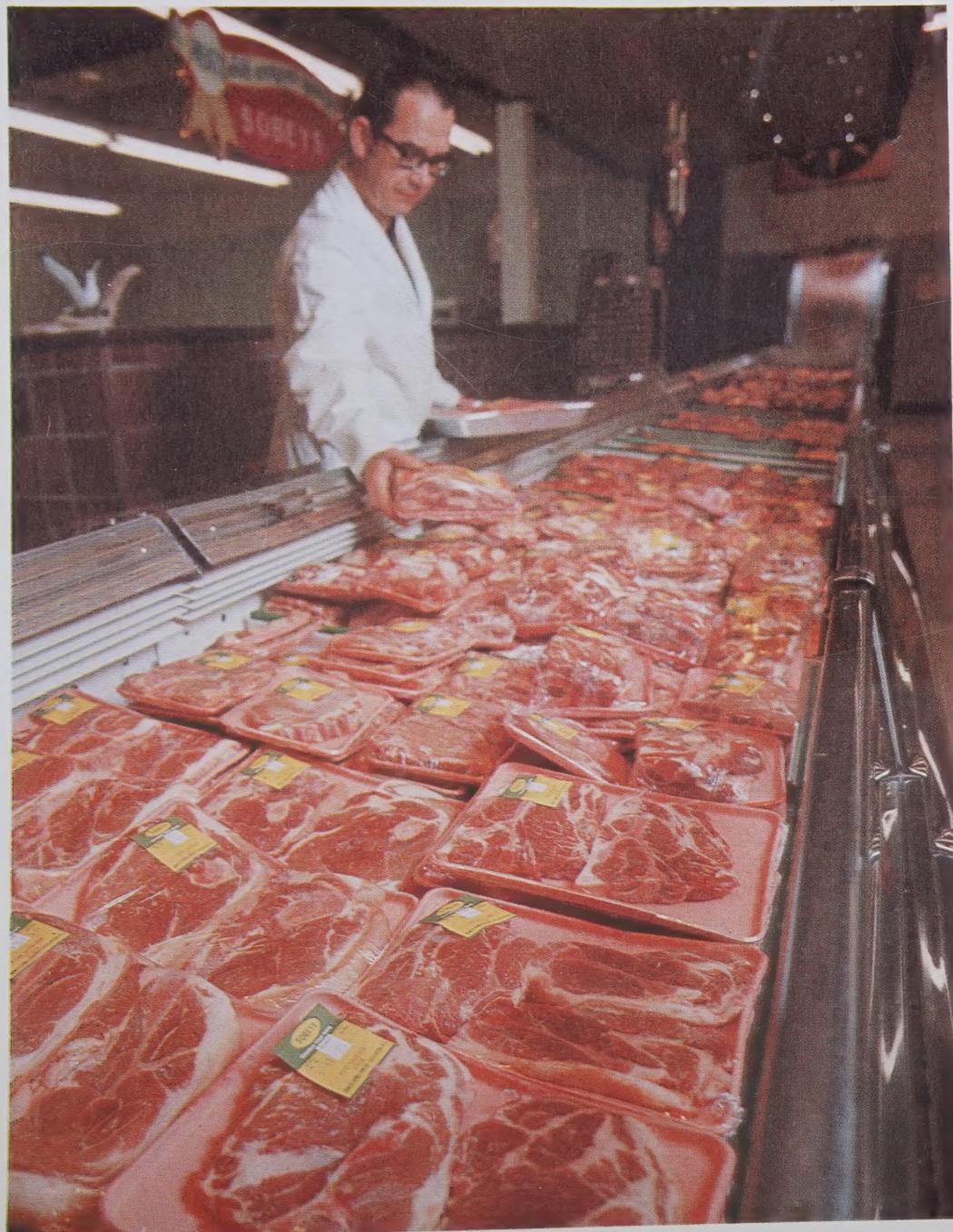


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Sobeys Stores Limited
Annual Report 1970

AR21





**24th ANNUAL REPORT,
SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
YEAR ENDING MAY 2, 1970.**

DIRECTORS AND OFFICERS

1

Head Office:

Stellarton Nova Scotia
Established 1906
Incorporated 1946

Auditors:

H. R. Doane and Company
New Glasgow, N.S.

Transfer Agent and Registrar:

Montreal Trust Co. Montreal
Toronto — Saint John — Halifax

Bankers:

The Bank of Nova Scotia

DIRECTORS

MERRITT G. CRAWFORD
ARTHUR R. LUNDRIGAN
JAS. A. MACMURRAY
HENRY B. RHUDE
LESLIE SHARP
DAVID F. SOBEY
DONALD R. SOBEY
FRANK H. SOBEY
HAROLD M. SOBEY
WILLIAM M. SOBEY
CHAS. E. STANFIELD

OFFICERS

FRANK H. SOBEY
Chairman of the Board
WILLIAM M. SOBEY
President
LESLIE SHARP
Vice President & General Manager
DAVID F. SOBEY
Vice President — Merchandising
HAROLD M. SOBEY
Vice President
MERRITT G. CRAWFORD
Secretary — Treasurer

Sales

Consolidated sales for the year ending May 2, 1970, increased 13.5 per cent over the corresponding period last year. A portion of this increase does, of course, reflect new stores opened during the year; but older units also contributed a healthy sales increase of 9.8 per cent against that period.

Earnings

After tax but before Preferred Share Dividends, earnings of \$1,012,450 were 22 per cent over the previous year. This is expressed, after Preferred Dividends, in earnings per share of \$1.26 against \$1.01. It should, however, be noted that pressure against earnings from operations as shown on the consolidated 'Statement of Earnings' was experienced particularly in the last quarter. Higher operating and opening expenses of new stores, high interest rates and new equipment costs, coupled with increased rents and labour rates made it difficult to maintain the operational earnings structure.

Financing

Cash flow for the year was \$2,347,505 and working capital as of May 2, 1970, stood at \$1,269,225.

Operating Costs

Reference has been made to increased costs of doing business in the report on earnings. These expenses, particularly on new markets, have a tendency to temporarily deflate earnings; however, these new markets are well-located in strong regional shopping centres and should contribute profitably to the Company's earning position.

Opening expenses are written off as they occur in line with Company policy.

Employee Benefits

The Company has contributed an amount of \$110,659 towards the Incentive and Profit Sharing and Retirement Plan during the calendar year.

Expansion and Development

New stores were opened in shopping centres in Marystow, Nfld.; St. John's, Nfld.; Charlottetown, P.E.I.; and Scotia Square, Halifax, N.S.

The Woodside and Westphal stores in Dartmouth were completely remodelled and doubled in size.

A number of new stores are presently under construction; all are located in shopping centre complexes.

During the past year, two Sobeys stores were changed to Thrift Marts and are presently operating on a discount policy of merchandising.

Lumsden Brothers Limited

The purchase of a substantial majority interest in the common shares of Lumsden Brothers Limited of Burlington, Ontario, as reported in the 1969 Annual Report, appears quite satisfactory. The Company is experiencing good growth in both earnings and sales.

Shopping Centres

The Company's major shopping centre operations, — Avalon Mall, St. John's, Nfld., and Highfield Square, Moncton, N.B. — are operating satisfactorily. The Company presently has under construction a mall shopping centre in Truro, N.S., and a neighborhood shopping complex in Dartmouth, N.S. Both are slated for an early fall opening, 1970.

Dividends

Quarterly dividends of 9c per share on the Common A and B stock as well as dividends on the 1966 — 6½% Preferred Shares were paid during the fiscal year.

Outlook

Competition is expected to increase and new forms of merchandising and selling concepts are being created at a fast rate. The Company has developed an experienced group of merchandising and store operators and views the future with determination to improve its overall operations.

In Appreciation

Our thanks is extended to customers, suppliers, employees, and shareholders who have assisted in the Company's growth and development over the years.

CONSOLIDATED STATEMENT OF INCOME
SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
YEAR ENDED MAY 2, 1970
 (with comparative figures)

	1970	1969
Income before the undermentioned items	<u>\$3,685,941</u>	<u>\$2,906,778</u>
Expenses		
Administrative and office salaries	640,149	517,086
Audit	18,087	8,670
Contribution to employee pension and profit sharing plan	66,770	59,922
Depreciation	759,471	664,027
Directors' fees	1,050	1,250
Debenture and mortgage interest	436,941	328,009
Interest on current debt	411,694	223,905
Legal	33,527	30,971
Staff incentive plan	65,659	37,654
	<u>2,433,348</u>	<u>1,871,494</u>
	<u>1,252,593</u>	<u>1,035,284</u>
Other income		
Interest and dividends	175,439	304,164
Net income before minority interest	1,428,032	1,339,448
Minority interest	25,066	
Net income before income taxes	1,402,966	
Income taxes (deferred \$559,068; 1969 \$611,606)	675,893	640,044
Net income from operations	727,073	699,404
Gain on sale of fixed assets and investments	285,377	130,308
Net income	<u>\$1,012,450</u>	<u>\$ 829,712</u>
Earnings per share	<u>\$ 1.26</u>	<u>\$ 1.01</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
 SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
 YEAR ENDED MAY 2, 1970
 (with comparative figures)

	1970	1969
Balance, beginning of year	\$4,724,710	\$4,324,107
Net income for the year	<u>1,012,450</u>	<u>829,712</u>
	<u>5,737,160</u>	<u>5,153,819</u>
Dividends paid – Class "A" common	187,510	187,510
– Class "B" common	76,320	76,320
– 6 1/4% preference	88,750	92,719
Tax adjustments relating to prior years	115,036	20,560
Transfer to capital redemption reserve fund arising from redemption of preference shares	<u>28,000</u>	<u>52,000</u>
	<u>495,616</u>	<u>429,109</u>
Balance, end of year	<u><u>\$5,241,544</u></u>	<u><u>\$4,724,710</u></u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
YEAR ENDED MAY 2, 1970
 (with comparative figures)

SOURCE	1970	1969
Operations		
Net income	\$1,012,450	\$ 829,712
Non cash charges	759,471	664,027
Depreciation	559,068	611,606
Minority interest	16,516	
	2,347,505	2,105,345
Payments received on mortgages and notes	45,454	10,193
Proceeds from long term loans and issue of debentures – net	1,033,140	908,334
Subsidiary mortgage and loan assumed	2,505,810	113,317
Minority interest in subsidiaries		228,488
	5,931,909	3,365,677
APPLICATION		
Net additions to fixed assets	5,308,895	1,679,682
Repayment of long term debt	706,027	252,814
Cost of redeeming preference shares	23,625	44,995
Prior years' income tax adjustments	35,636	20,560
Excess of cost of investments over book value, on acquisition		888,710
Dividends to shareholders	352,580	356,549
	6,426,763	3,243,310
Increase (decrease) in working capital	(494,854)	122,367
Working capital, beginning of year	1,764,079	1,641,712
Working capital, end of year	\$1,269,225	\$1,764,079

CONSOLIDATED BALANCE SHEET

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
 MAY 2, 1970
 (with comparative figures)

ASSETS	1970	1969
Current		
Cash	\$ 1,943,898	\$ 1,374,069
Marketable securities, at cost (market value \$1,284,117 1969 \$1,660,890)	1,151,446	1,311,980
Receivables — (Note 1)	3,164,732	2,755,159
Inventories, at cost	3,521,744	3,307,145
Special refundable tax receivable	1,409	41,349
Prepaid expenses	308,498	84,762
	<u>10,091,727</u>	<u>8,874,464</u>
Mortgages, loans and notes receivable	194,413	200,663
Excess of cost of investments over book value, on acquisitions	888,710	888,710
Fixed, at cost		
Buildings and parking facilities	13,207,604	9,291,224
Furniture and equipment	6,660,690	5,913,935
Motor vehicles	217,011	245,603
Leasehold improvements	578,843	501,141
	<u>20,664,148</u>	<u>15,951,903</u>
Less: Accumulated depreciation	4,543,163	4,030,037
	<u>16,120,985</u>	<u>11,921,866</u>
Land	2,119,284	1,773,354
	<u>18,240,269</u>	<u>13,695,220</u>
	<u>\$29,415,119</u>	<u>\$23,659,057</u>

The accompanying notes form part of this statement.

LIABILITIES**Current**

	1970	1969
Bank loan - secured	\$ 1,030,000	\$ 1,282,000
Banker's acceptance	1,500,000	1,500,000
Payables and accruals	5,660,309	4,153,747
Long term debt payable within one year	534,644	97,621
Estimated income tax payable	53,231	42,271
Deferred revenue	44,318	34,746
	<hr/>	<hr/>
Long Term debt (Note 5)	8,822,502	7,110,385
Accumulated tax reductions applicable to future years	8,747,689	5,875,562
Minority interest in subsidiaries	3,086,530	2,448,062
	<hr/>	<hr/>
	245,004	228,488

SHAREHOLDERS' EQUITY**Capital stock****Authorized**

250,000 6 1/4% cumulative redeemable preference shares of \$20 par value each, issuable in series

750,000 Class "A" common shares without nominal or par value

500,000 Class "B" common shares without nominal or par value

Issued and outstanding

71,000 preference shares, 1966 series - (Note 10)

520,860 Class "A" common shares

212,000 Class "B" common shares

Capital redemption reserve fund

Retained earnings

Signed on behalf of the Board

FRANK H. SOBEY
Director

WILLIAM M. SOBEY
Director

1. Receivables

	1970	1969
Trade	\$ 712,856	\$ 785,239
Extended term	187,633	
Rent	125,915	907
Loans	2,119,759	1,868,561
Current portion of mortgages, loans and notes receivable	18,569	100,452
	<hr/> \$3,164,732	<hr/> \$2,755,159

2. Principles of Consolidation

The consolidated companies are: Food City Limited (wholly owned); Highfield Square Limited (wholly owned) and Lumsden Brothers Limited (controlled).

3. Long term leases

During the year the company paid \$1,505,034 in rentals under lease agreements extending beyond five years from the balance sheet date. The company also received \$1,349,995 rental income as lessor under long term leases.

4. Sales

The company has been granted exemption from sales disclosure by the Ontario Security Commission for reasons of competition within the industry.

Gross consolidated sales of the company have increased by 13.5% over the previous year's sales and 32.3% over the previous five years' average sales.

5. Long term debt

Company
Sinking fund debentures

Series	Maturity	Authorized	1970	1969
"B" – 5%	Mar. 1/72	\$ 500,000	\$ 200,000	\$ 225,000
"C" – 4 3/4%	Sept. 1/75	500,000	290,000	305,000
"D" – 6%	May 1/77	750,000	457,500	480,000
"E" – 6%	Mar. 1/81	1,000,000	730,000	740,000
"F" – 6%	Apr. 1/84	1,000,000	820,000	830,000
"G" – 5 3/4%	Apr. 15/85	500,000	415,000	415,000
"H" – 6%	Nov. 1/85	1,000,000	880,000	910,000
"I" – 7 1/4%	June 15/87	1,000,000	940,000	970,000
"J" – 8 1/2%	Mar. 1/89	1,000,000	970,000	1,000,000

9 3/4% loan, maturing in equal annual
installments to 1975
10% loan, maturing 1973
Mortgages, maturing 1972 to 1976
with interest rates of 6% to 8%

1,072,344	
2,500,000	
112,489	224,683
<hr/> 9,387,333	6,099,683
<hr/> 639,644	224,121
<hr/> \$8,747,689	\$5,875,562

6. Contingent liabilities

(a) In consideration of the exclusive right to lease the supermarket premises in all shopping centres developed by Canadian Shopping Centres Limited, the company has undertaken by Agreement, dated April 1, 1960, to provide cash to meet any obligations which Canadian Shopping Centres Limited is unable or fails to meet until all Series "A" debentures (of which \$360,000 principal amount is presently outstanding) of Canadian Shopping Centres Limited have been paid in full in accordance with their terms. Any deficiency payment made by

the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% non-cumulative redeemable non-voting preference shares of the par value of \$100 each of Canadian Shopping Centres Limited.

(b) The company has undertaken by agreements dated October 15, 1967 and October 15, 1969 to provide cash to meet any obligations which Sobey Leased Properties Limited is unable or fails to meet until all Series A and B debentures of Sobey Leased Properties Limited have been paid in full in accordance with their terms. Any deficiency payment made by the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% cumulative redeemable non-voting preference shares of the par value of \$100 each of Sobey Leased Properties Limited. At balance sheet date the outstanding principal amounts of these debentures were:

Series A	\$ 705,000
Series B	1,250,000
Total	\$1,955,000

(c) The company has guaranteed bank loans with an outstanding balance of \$1,250,000 (U.S.) of Foord Construction Limited.

7. Share purchase warrants

The company has reserved a maximum of 60,000 unissued Class A common shares to satisfy the conditions relating to share purchase warrants issued with the sinking fund debentures, Series H and share purchase warrants issued with the sinking fund debentures, Series J. These share purchase warrants entitle the bearers thereof to purchase 40,000 Class A common shares at the subscription price of \$12 per share up to 4:00 p.m. Atlantic Standard Time on November 1, 1970 and to purchase 20,000 Class A common shares at the subscription price of \$12 per share up to 4:00 p.m. Atlantic Standard Time on March 1, 1979.

8. Short term loans

The company advances cash from time to time on a demand note basis at current bank rates of interest to Sobey Leased Properties Limited and other companies. It also advances funds without interest to these companies for their use in acquiring, constructing and leasing shopping centre properties for and on behalf of the company.

9. Deferred income taxes

As a result of claiming capital cost allowance in excess of recorded depreciation the company has significantly reduced its cash requirements for income taxes in the past four years. The company has followed a policy of providing for deferred income taxes and the accumulated tax reductions applicable to future years are reflected on the balance sheet.

10. Preference shares

The 1966 series preference shares may be called at reducing premiums until October 1, 1971, after which they may be called at par. During the year 1,400 shares were purchased and cancelled reducing the issued preference capital to \$1,420,000.

11. Depreciation

Company depreciation policy on major shopping centres is to record straight line depreciation on an accelerating scale for the initial years while the centres are developing to their potential. It is the opinion of management that this policy is adequate to amortize the cost of these centres over their useful life.

12. Director's and officer's remuneration

Total remuneration to officers and directors for the year was \$158,136.

13. Subsequent transactions

Subsequent to the balance sheet date the company entered into an agreement to purchase two maritime retail grocery companies for a total consideration of \$425,000.

To the Shareholders

We have examined the balance sheet of Sobeys Stores Limited and its subsidiary companies as at May 2, 1970 and the statements of income and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying balance sheet and statements of income and retained earnings and source and application of funds are properly drawn up so as to exhibit a true and correct view of the financial position of the companies as at May 2, 1970 and the results of operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

New Glasgow, Nova Scotia
June 26, 1970

REVIEW OF FINANCIAL GROWTH SINCE INCORPORATION
SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES

Operations	1970	1969	1966	1961	1956	1951	1947	Pre-tax income from operations in thousands of dollars
Income from operations	\$ 1,402,966	\$ 1,339,448	\$ 930,809	\$ 602,353	\$ 236,012	\$ 102,394	\$ 22,538	
Depreciation	759,471	664,027	527,106	211,095	99,472	37,846	10,186	
Interest on long term debt	436,941	328,009	248,133	101,181	60,963	7,808	3,134	
Cash flow	2,347,505	2,105,345	1,336,179	882,119	250,178	96,617	29,455	
Income tax	675,893	640,044	431,455	279,591	108,504	43,959	8,988	
Gain on sale of fixed assets and investments	285,377	130,308	214,961	6,652	6,639	335	397	
Net income after provision for income tax	1,012,450	829,712	664,315	329,415	134,146	58,771	18,668	
Number of stores	61	56	49	32	17	11	15	
Shareholders information								Cash flow in thousands of dollars
Cash flow per share	3.20	2.87	1.90	1.29	.50	.19	.06	
Equity per share	9.68	8.94	6.76	4.01	1.49	.51	.19	
Preferred share dividend	6.25%	6.25%	—	—	5.00%	5.00%	—	
Common share earnings	1.26	1.01	.97	.48	.26	.12	.04	
Common share dividends	.36	.36	.23	.20	—	—	—	
Average number of common shares outstanding	732,860	732,860	346,715	340,000	10,000	10,000	10,000	
Balance sheet								Fixed assets in millions of dollars
Working capital	1,269,225	1,764,079	1,747,417	1,159,523	339,599	151,011	122,886	
Fixed assets	18,240,269	13,695,220	7,870,999	3,621,904	1,575,620	254,399	109,912	
Long term debt	8,747,689	5,875,562	4,416,000	2,507,008	1,227,875	158,881	150,000	
Net tangible assets per \$1,000 debenture	2,997	2,729	2,179	2,154	1,591	3,211	1,596	

Designed and produced in Atlantic Canada

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DIRECTORS

MERRITT G. CRAWFORD
ARTHUR R. LUNDRIGAN
JAS. A. MacMURRAY
HENRY B. RHUDE
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DAVID F. SOBEY
Exec. Vice President—Merchandising
HAROLD M. SOBEY
Vice President
MERRITT G. CRAWFORD
Secretary—Treasurer



SOBEYS

**SOBEYS STORES
LIMITED**

INTERIM REPORT

SOBEYS

SIX MONTHS
ENDING
NOVEMBER 7
1970

SOBEYS STORES LIMITED
INTERIM STATEMENT

Six months ending November 7, 1970

TO THE SHAREHOLDERS

Company sales for the first six months reached a new high and were 10.5 per cent over the corresponding period last year.

The competitive situation in the grocery industry was intensifying during this period. Stores were forced to be open longer hours; the pressure of rising costs and deteriorating mark-ups forced earnings downward.

Since May, three new supermarkets were opened in shopping centres, two Company stores were converted to Thrift Marts; and two older units were closed. All costs pertaining to these units are absorbed in this report.

During the period, Arrowbrook Enterprises Limited, operating five L-Mart stores; T. R. A. Limited, a wholesale grocery firm; and Joy Stores Limited were consolidated, thus improving the Company's earning position.

The real estate division of the Company continued to show improvements in income and earnings. This diversification has added additional stability to the Company's overall operations.

The Company has recently moved into discounting in the four Atlantic Provinces; and, while the results at this point are difficult to assess, the competitive situation shows no improvement and will, in all likelihood, become more severe during the balance of the year.

WILLIAM M. SOBEY
President

Stellarton, N.S.
December 12, 1970

SOBEYS STORES LIMITED
CONSOLIDATED STATEMENT OF EARNINGS
SIX MONTHS ENDED NOVEMBER 7, 1970

(with comparative figures)

NOT *sales*

	1970 (6 mos.)	1969 (6 mos.)
Net operating income	\$ 675,144	\$ 654,073
Provision for income taxes (deferred \$315,471)	<u>319,146</u>	<u>314,680</u>
Net income	355,998	339,393
Preferred share dividend	44,375	45,250
Net income after providing for preferred share dividend	311,623	294,143
Gains on sale of fixed assets and investments	1,960	116,733
Net income	<u>313,583</u>	<u>410,876</u>
Earnings per share	\$.43	\$.56

Note: The financial results include the earnings of the subsidiaries acquired during the period.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(with comparative figures)

Source	1970 (6 mos.)	1969 (6 mos.)
Net income	\$ 355,998	\$ 339,393
Add: Depreciation	499,036	348,233
Deferred income taxes	<u>315,471</u>	<u>275,565</u>
Gains from sale of fixed assets and investments	1,170,505	963,191
Increase in minority interest	1,960	116,733
Increase in long term debt	35,913	6,883
Deferred income tax of acquired subsidiaries	<u>196,981</u>	<u>2,443,458</u>
	<u>34,803</u>	
	<u>1,440,162</u>	<u>3,530,265</u>
Application		
Increase in fixed assets	1,308,149	4,215,166
Increase in mortgages, loans and notes receivable	270,720	85,908
Dividends paid	190,458	185,715
Excess of cost of investments over book value on acquisitions	<u>445,872</u>	
	<u>2,215,199</u>	<u>4,486,789</u>
Decrease in working capital	<u>\$ 775,037</u>	<u>\$ 956,524</u>

Note: The above financial information is unaudited.